



CEO UPDATE

FEBRUARY 21, 2012

Trip Doggett
President & CEO

FINANCIAL PERFORMANCE (UPDATED THROUGH JANUARY)

YTD BUDGET VS. ACTUAL PERFORMANCE: \$5.0 MILLION FAVORABLE

REVENUES

\$5.7 Million favorable 2011 Carry Forward

\$0.6 Million unfavorable System Administration Fee

EXPENSES

\$0.4 Million unfavorable Outside Services

\$0.2 Million favorable Facilities & Equipment Cost

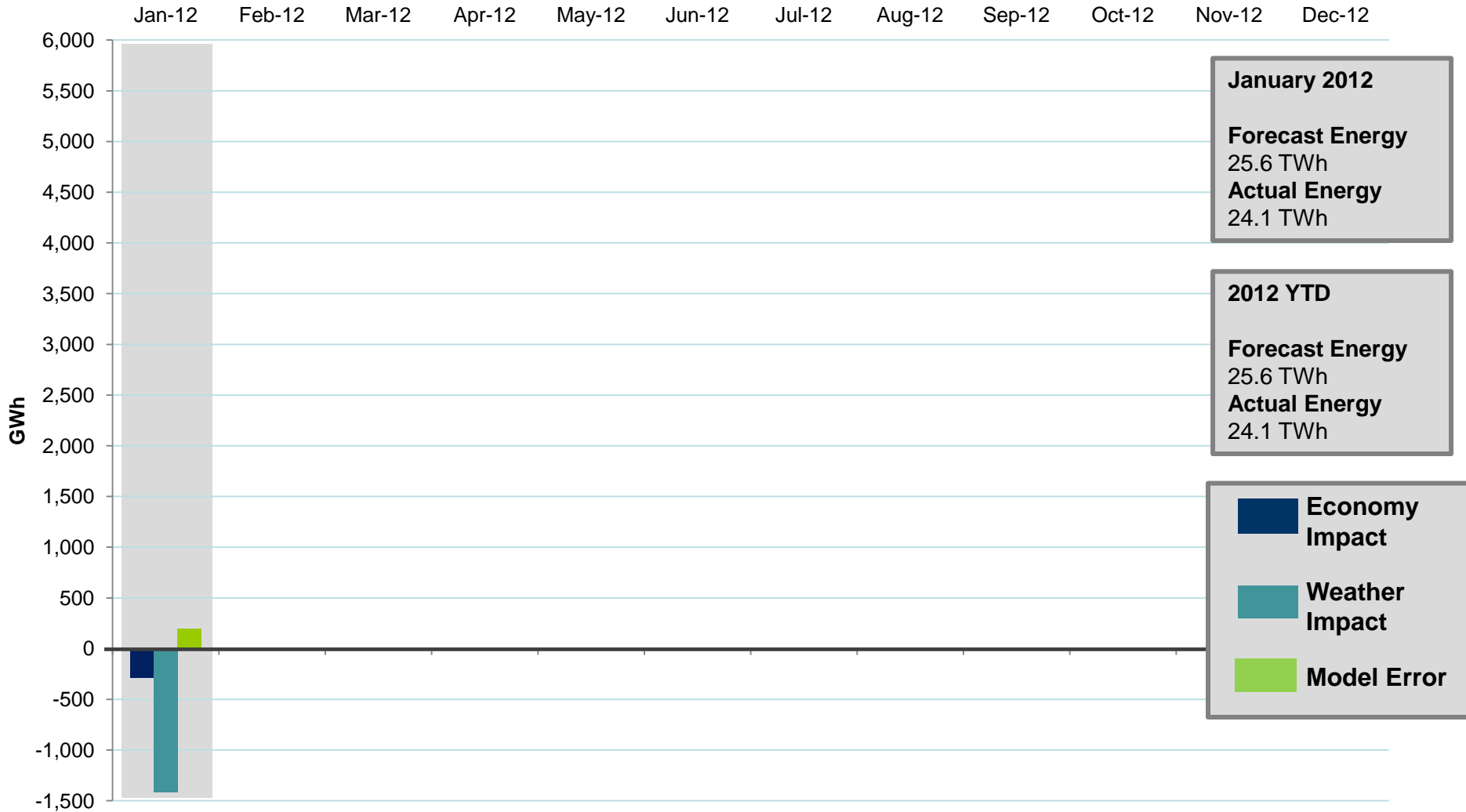
YEAR-END PERFORMANCE FORECAST: \$5.5 MILLION FAVORABLE

REVENUES \$5.7 Million favorable 2011 Carry Forward

EXPENSES

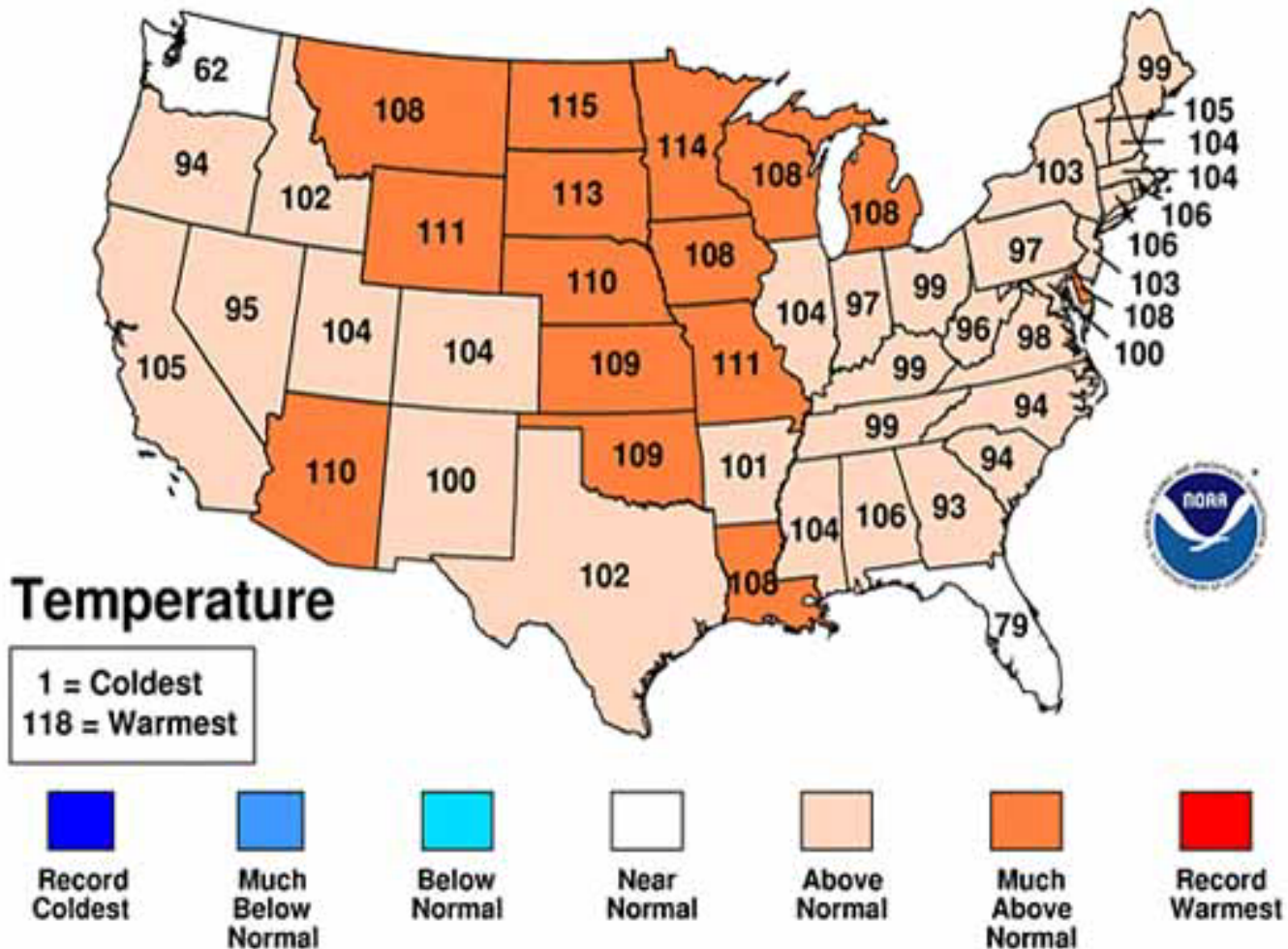
- \$3.6 Million unfavorable Outside Services
- \$3.2 Million favorable Salary & Benefits
- \$0.2 Million favorable Hardware/Software Maintenance & Licenses

IMPACTS OF ECONOMY & WEATHER – 2012



January 2012 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



RESOURCE ADEQUACY - UPDATE

Summer 2012	12/01/11 CDR for 2012	1/09/12 Current
Firm Load Forecast (MW)	64,618	64,618
Resources (MW)	72,444	*73,574
Reserve Margin (Target = 13.75%)	12.11%	13.86%

*

Returned to Service (MW)

Monticello 1&2 – 1130MW (as a result of a federal court's order to stay EPA's CSAPR)

RESOURCE ADEQUACY ACTIONS – CATEGORY 1

Item	Complete	In Progress	Future	Notes
Online Non-Spin standing deployment & offer floor	X			<ul style="list-style-type: none"> • NPRRs 426 /428 • ERCOT Board approved 12/13/11 • Implementation completed 1/5/12
Offline Non-Spin offer floor	X			<ul style="list-style-type: none"> • NPRR 428 • ERCOT Board approved 12/13/11 • Implementation completed 1/5/12
Responsive Reserve & Regulation Up offer floor	X			<ul style="list-style-type: none"> • NPRR 427 • ERCOT Board approved 12/13/11 • Implementation completed 1/5/12
Institutionalize the process to recall units for capacity		X		<ul style="list-style-type: none"> • NPRR 432 endorsed 2/2/12 at TAC (Vote: 25-5) • Targeted for February Board approval

RESOURCE ADEQUACY ACTIONS – CATEGORY 2

Item	Complete	In Progress	Future	Notes
Expansion of Responsive Reserve with a corresponding reduction in Non-Spin		X		<ul style="list-style-type: none"> Revised Ancillary Service Methodology endorsed by TAC on 2/2/12, targeted for implementation in April 2012 Related NPRR 434 also endorsed by TAC on 2/2/12, to be implemented after software changes completed Both items targeted for February Board approval
The proper price for RUC units deployed for capacity		X		<ul style="list-style-type: none"> NPRR 435 endorsed by TAC (Vote: 22-6-1) SWCAP for MW above LSL Targeted for February Board approval
The proper magnitude and slope of the Power Balance Penalty Curve		X		<ul style="list-style-type: none"> RDTF considered options on 1/27/12 Further analysis of options expected at RDTF on 2/24/12

RESOURCE ADEQUACY ACTIONS – CATEGORY 3

Item	Complete	In Progress	Future	Notes
Review raising the System Wide Offer Cap		X		<ul style="list-style-type: none"> Commission Staff issued questions for comments and scheduled a workshop on the issue on 2/23/12
Low Sustainable Limit problem for units RUC'ed online for capacity		X		<ul style="list-style-type: none"> RDTF discussion on 1/27/12 resulted in initiation of work on NPRR development Discussion of concept targeted at WMS on 2/15/12 Additional discussion expected at RDTF on 2/24/12
Compensation for Reliability Unit Commitments made to provide local reliability and transmission relief and address the issue of whether and how RUC claw-back should be adjusted		X		<ul style="list-style-type: none"> NPRR 416 was submitted by Market Participants NPRR 416 was tabled at PRS because of potential dependency on NPRR 435 (RUC Offers); additional consideration expected after the February Board vote on NPRR 435
Review Peaker Net Margin Cap		X		<ul style="list-style-type: none"> Commission Staff issued questions for comments and scheduled a workshop on the issue on 2/23/12

RESOURCE ADEQUACY – POTENTIAL FOR SUMMER 2012

Item	Complete	In Progress	Approximate MW Range	Notes
Mothballed Units which could return to service		X	0 – 2,750	<ul style="list-style-type: none"> • 1 month – 300 MW • 3 months – 1150 MW • 4 months – 450 MW • 6 months – 600 MW • Unknown – 250 MW • 420 MW already included in 2012 CDR
Proposed EILS Rule Change		X	130 – 200	<ul style="list-style-type: none"> • PUC Project No. 39948: Commission Staff preparing proposal for adoption • ERCOT Staff exploring options for 30-minute Emergency Response Service pilot • Tight timeline to implement changes for June to September 2012 contract period
Distribution Load Aggregation		X	TBD	<ul style="list-style-type: none"> • Working on an estimate for summer 2012 based on data from potential provider(s)
Transmission and Distribution Utility Load Management Programs		X	177– 229	<ul style="list-style-type: none"> • 112 MW already under Load Management in 2011 • Total up to 341 MW in 2012 with increased Load Management • Most MWs have a max of 4 deployments per summer, and a max event duration of 4 hours • Discussions among Commission Staff, TDUs, and ERCOT underway regarding coordination of program deployments.
Posting non-binding near real-time forward prices		X		<ul style="list-style-type: none"> • ERCOT Board approval 12/13/11 • Implementation planned for June 2012

RESOURCE ADEQUACY INCENTIVE EVALUATION PROJECT

- **Scope**

- Identify and examine the factors that influence investment decisions related to the financing and development of projects to meet ERCOT's resource adequacy goals. Consider supply-side and demand-side resources, from both a wholesale and retail perspective.
- Provide suggestions for ways to enhance favorable investment outcomes for long-term resource adequacy in ERCOT

- **Estimated Project Completion – June 01, 2012**

- **Procurement Update**

- Reviewed & evaluated 8 responses, shortlisted Vendors for presentations and Q&A
- Target on-site presentations and Q&A, Feb 13-17, 2012
- Review recommendations with BoD during Executive Session, and begin contract negotiations, with goal to conclude no later than Feb 29, 2012

WINTER WEATHERIZATION AUDITS

- ERCOT initiated audits of weatherization plans for generation units with freeze related failures in the past to assess preparedness for extreme weather after the events of February 2nd, 2011
- 20 generation sites were audited beginning early December, 2011
- ERCOT staff is currently:
 - Summarizing and analyzing audit findings to evaluate confidence that system can withstand a winter event similar to 2011
 - Designing best practices for future audits

- **To determine to what degree interruption of gas supply might pose a reliability risk to ERCOT**
- **Black and Veatch selected as consultant – started work 9/23/2011**
- **Data Gathering & Analysis**
 - Survey to ERCOT electric generators regarding their gas supply and delivery
 - Additional data from ERCOT and Railroad Commission
 - Research and analysis of curtailments and natural gas infrastructure
- **Deliverables**
 - Database of historical natural gas curtailments
 - Data summarizing natural gas infrastructure serving electric generators
 - Complete modeling of identified natural gas curtailment risk scenarios
 - Complete probabilistic analysis of risk of curtailment in defined scenarios
- **Black and Veatch will present a summary of the study later in meeting**

Electric Vehicle (EV) Research

- Collaborative research project with Pecan Street Project and UT Austin
- Researching the degree to which electric vehicles can participate in the ancillary services market in the ERCOT region



Research Highlights

- Feb 10, 2012 – “EV Charging Day” – Harmonic and charging profile analysis
- Scheduling vehicle charging, accounting for power system reliability
- Framework integrating ERCOT signals, data from AMIs, charging stations, EVs & drivers

BUSINESS INTEGRATION

- Data Center Project – completing Execution Phase
 - Final project closing activities underway
 - Scheduled to close as planned in late February
 - Project was a huge success resulting in two new data centers and a new control center that are fully functional
- Phase 1 of Look Ahead SCED (Indicative Pricing – NPRR351) – moved to Execution
 - On target for delivery in June 2012

OPERATIONS

- Started using the new on-line Transient Security Analysis Tool (TSAT) in day ahead and real-time operations. Prior to using TSAT, the West to North Transmission Stability Limit was determined by planning studies done in advance that could not reflect the most current conditions available. Comparison has shown use of TSAT may increase the West to North limit as much as 400 MW over the value used from the planning studies, thus reducing congestion costs.

DEPARTMENTAL UPDATES

EXTERNAL AFFAIRS

- Briefed Commissioner Pablos on cyber security issues during tour of the Taylor facility
- Discussed water issues with Representative Allen Ritter
- Briefed Railroad Commission Executive Director on gas risk study
- Discussed resource adequacy issues with Senator Watson
- Testified on resource adequacy at the House State Affairs Committee hearing
- Participated in Chairman Nelson's working group regarding conservation messaging

INFORMATION TECHNOLOGY

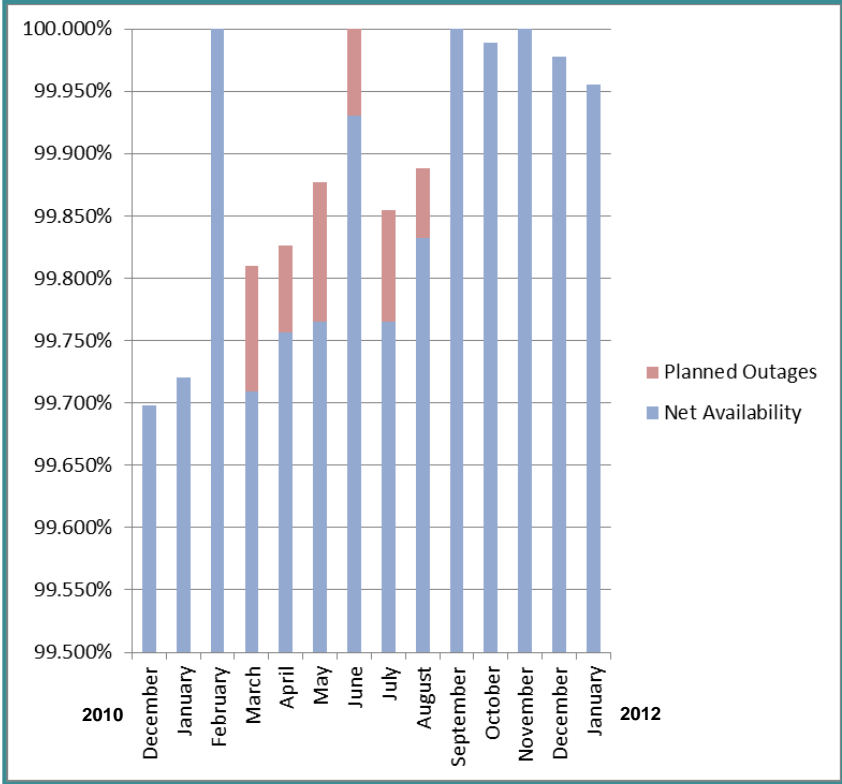
- Security Constrained Economic Dispatch (SCED) missed eight intervals on February 2
 - Occurred when the Data Center Relocation Project decommissioned a server
 - The server contained routing information still in use by SCED
 - SCED was unable to resolve routing information and stopped functioning
 - Root Cause is still under investigation

SCED PERFORMANCE SINCE MARKET LAUNCH (12/10 – PRESENT)

Security Constrained Economic Dispatch

- Since the Nodal Market launch **125,280** SCED solutions have been scheduled to complete at five minute intervals
- There have been **22** unplanned incidents resulting in **102** SCED solutions not completing

Root Cause	Number of Incidents	Number Resolved
Hardware	10	10
Software	12	12
Total	22	22



Total Availability Target (Planned & Unplanned)

- For 2011 – 99.932%
- For 2012 – 99.500%



HOLD THE DATE!

Joint Board / IRC Conference

Dates: May 23rd – 24th (Wednesday and Thursday)

Location: Dallas, Texas

Hosted by: ERCOT

2012 IRC Chair: Trip Doggett